



Property Assessment and Taxation – Historical and Current Perspectives

Presented by Michael Houdyshell
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What is the Property Tax?

- The property tax is an *ad valorem* tax on all property that has been deemed taxable by the South Dakota Legislature. *Ad valorem* refers to a tax imposed on the value of something (as opposed to quantity or some other measure). The property tax is the primary source of revenue for local governments. The State does not collect or spend any property tax revenue.
- SDCL 10-4-1. All **real property** in this state and the **property of corporations** existing or hereafter created, and the **property of all banks or banking companies** existing or hereafter created, except such as is hereinafter expressly excepted, **is subject to taxation**; and such property, or the value thereof, shall be entered in the list of taxable property for that purpose, in the manner prescribed in chapter 10-6.
- SD Constitution, Art. 11, § 2. To the end that the burden of **taxation may be equitable upon all property**, and in order that no property which is made subject to taxation shall escape, the Legislature is empowered to divide all property including moneys and credits as well as physical property into classes and to determine what class or classes of property shall be subject to taxation and what property, if any, shall not be subject to taxation. **Taxes shall be uniform on all property of the same class, and shall be levied and collected for public purposes only.** Taxes may be imposed upon any and all property including privileges, franchises and licenses to do business in the state. Gross earnings and net incomes may be considered in taxing any and all property, and **the valuation of property for taxation purposes shall never exceed the actual value thereof.** The Legislature is empowered to impose taxes upon incomes and occupations, and taxes upon incomes may be graduated and progressive and reasonable exemptions may be provided.



What is the Property Tax?

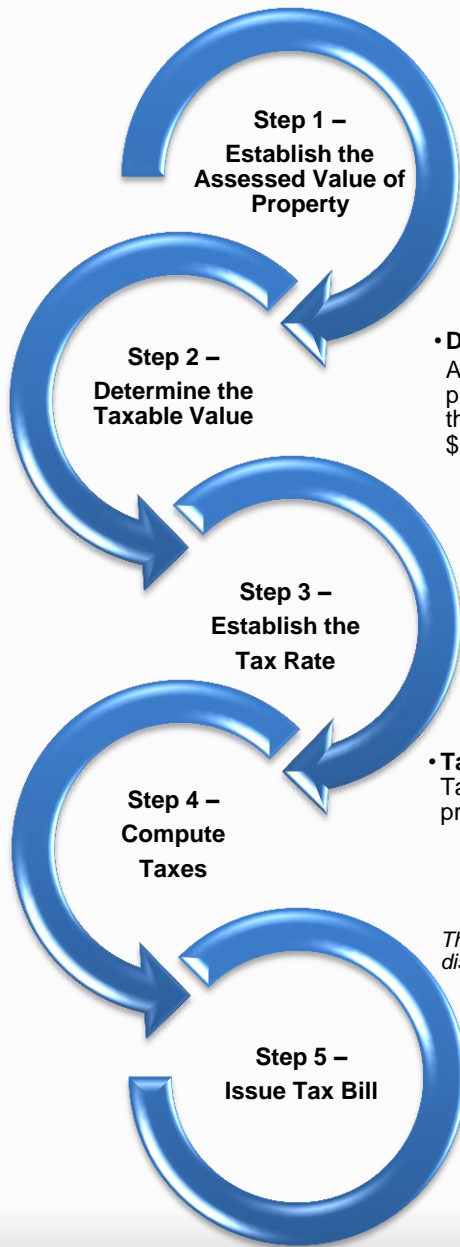
- Property taxes have been the primary funding source for local governments since statehood. For a period of time the property tax was also the major source of revenue for the state.
- Property taxes have been a target for reform for decades. In fact, SB 36 in 1935, which enacted the sales tax and income tax, was commonly referred to as the “Property Relief Act.”
- In 1980, 1988, 1990, 1994, and 2006, ballot questions and measures regarding property taxation were submitted to the voters. All were defeated.
- SDCL ch. 10-6 (Annual Assessment of Property) has been amended 28 out of the last 32 years.



History of Property Taxes in South Dakota: A Brief Timeline of Events

- Pre-1977: Counties were to assess at market value, but in practice assessed at various levels depending on the type of property.
- 1977: Legislation was passed to require assessment at market value, but counties were given the authority to set taxable percentages (not to exceed 60% of assessed value). It was common for a much lower taxable value to be assigned to agricultural land.
- 1989: Major rewrite of the property tax laws through SB 12 and SB 15. Some of the changes included:
 - Removed the counties ability to set taxable percentages
 - Adjusted statutory levy limits
 - Established minimum assessment standards, such as all property must be assessed at 85% of its market value and coefficient of dispersion (COD) of less than 30.
 - Also, Governor Mickelson brought property tax freeze legislation that froze individual property tax bills for 2 years (pay '90 and pay '91). The legislation also required a 2-year study of the property tax system to find a "fix."
- 1992: The tax freeze expired without a "fix" for the property tax system. Property values were raised to at least 85% of market and state monies were withheld from counties that did not achieve this statutory requirement or failed to have a COD of less than 30.
- 1994: Initiated Measure 1 on the general election ballot. This measure would have frozen assessments at January 1, 1995 levels and only allowed increases up to 1.25% annually if property improved or transferred ownership. Failed by a narrow margin (3,387 votes).
- 1995: Governor Janklow's Property Tax Reduction Act and revised State aid to education formula
 - Created "owner-occupied" classification which, along with agricultural property, received a 30% tax reduction phased in over pay '97, pay '99, and pay '01 taxes.
- 2008: HB 1005 passed, creating the Agricultural Productivity Methodology for assessing agricultural land.





- **The full and true (assessed) value of all property in the state is determined as of the legal assessment date which is November 1 prior to the assessment year (November 1, 2011 for the 2012 assessment year, taxes payable in 2013).**

Each Director of Equalization in the 66 counties in the State is to assess all real property within the county at the full and true value. Assessment notices are sent to the property owner on or before March 1 of each year.

- **Determine the taxable value of the property.**

All property is to be assessed at full and true value. Then the property is equalized to 85% for property tax purposes. If the county is at 100% of full and true value, then the equalization factor (the number to get to the 85% taxable value) would be 0.85. (example: full and true value of \$120,000 x 85% = taxable value of \$102,000)

- **Determine the tax levy for all taxing jurisdictions which can tax the property.**

Tax levies for each taxing jurisdiction are determined by dividing the tax levy request by the total taxable value within the taxing jurisdiction and multiplying the result by 1,000. For example, if the taxable value within a city is \$10,000,000 and the city has a tax levy request of \$100,000, the tax levy is computed as follows:

$$\begin{aligned}\text{Tax levy} &= (\text{tax levy requested divided by taxable value}) \times 1,000 \\ \text{Tax levy} &= (\$100,000 / \$10,000,000) \times 1,000 = \$10 \text{ per thousand}\end{aligned}$$

- **Taxes are computed for individual properties.**

Taxes are computed by multiplying the taxable value times the tax levy. For example, if the person has property with taxable value of \$102,000, the property taxes for city purposes would be computed as follows:

$$\begin{aligned}\text{Taxes} &= \text{taxable value} (\text{Tax levy divided by } 1,000) \\ \text{Taxes} &= \$102,000 \times (\$10 / 1,000) = \$1,020\end{aligned}$$

This same step is done for this property for each taxing district that can tax the property, such as county, city, school, fire district, etc. The sum would be the total property taxes due on the property.

- **Tax bills are sent to property owner.**

Taxes are due and payable January 1 of the year following assessment (2012 assessment, taxes are due and payable January 1, 2013). They do not become delinquent if one-half of the taxes are paid before May 1 and the remaining half paid before November 1. All property taxes are paid to the county treasurer in the county where the property is located.

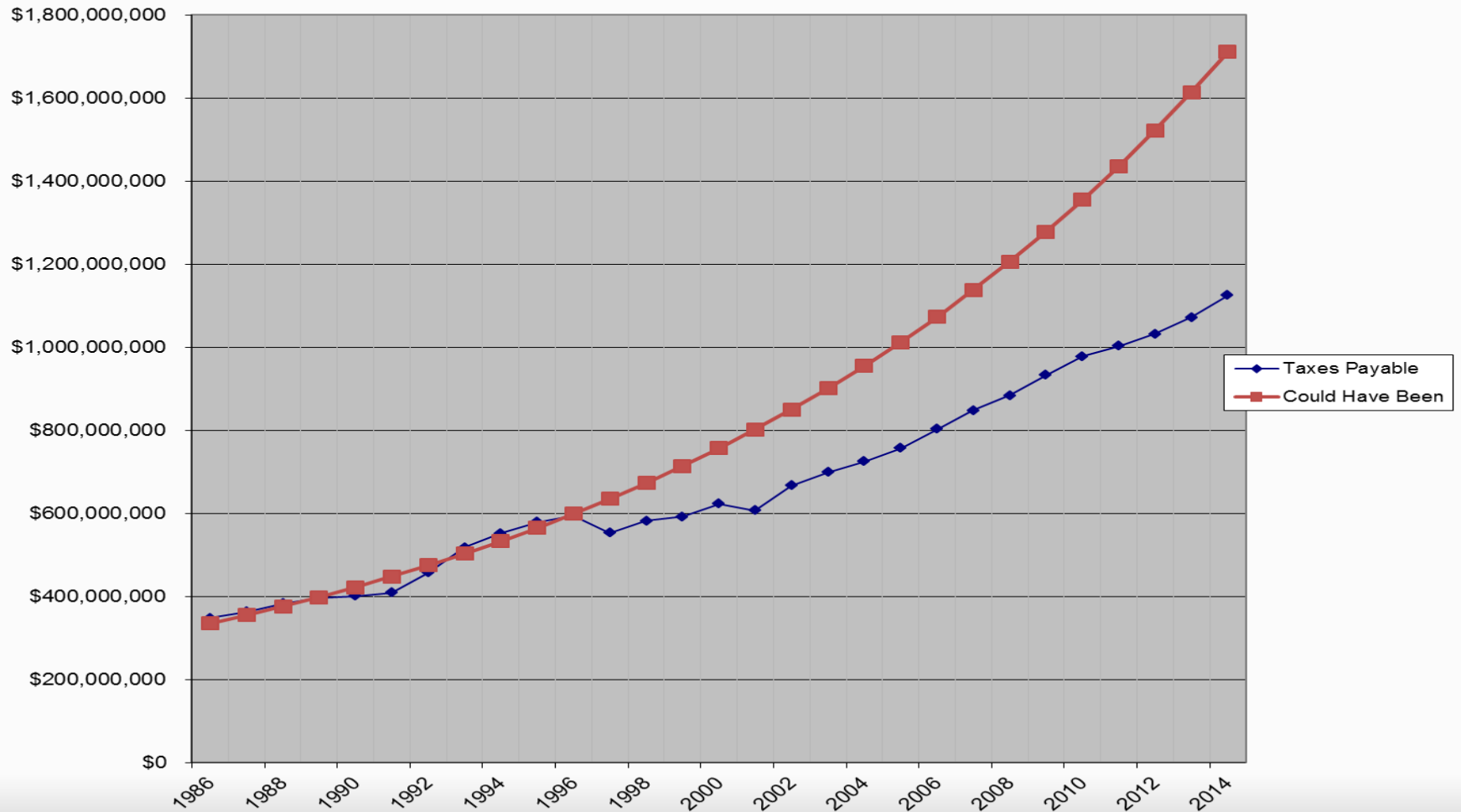
Property Tax Limitation System

- South Dakota has two independent systems that limit the growth of property taxes.
 - **State aid to education payments** replace property taxes for schools that would otherwise be paid by owners of agricultural property and owner-occupied houses.
 - **Property tax caps** limit the amount of property taxes that local governments can collect from property owners.

Property Tax Limitation System

- Property tax caps
 - Local governments are limited to the amount of property taxes they collected the prior year, PLUS an increase for inflation based upon the consumer price index or 3%, whichever is less, and growth (new construction within the taxing jurisdiction).
 - Example:
 - Municipality has a total property valuation of \$100 million and collected \$300,000 in property taxes by imposing a 3 mill tax levy last year. Current year CPI is 2% and residential development added \$1 million of new value (growth). Values of existing properties increased to \$109 million.
 - Municipality can increase its prior year tax request by 3% (2% for CPI + 1% for growth), or \$9,000, for a total current year request of \$309,000.
 - To prevent going over the cap, the tax rate applied to the \$110 million of property in the municipality (\$109 million of existing value + \$1 million of new growth) would be automatically lowered from 3 mills to 2.81 mills ($\$309,000 / \$110,000,000 \times 1,000 = 2.81$ per thousand)

Projected Historical Growth v. Actual Growth of Property Taxes since the Implementation of the SD Property Tax Limitation System



Effective Property Tax Rates of Select Municipalities

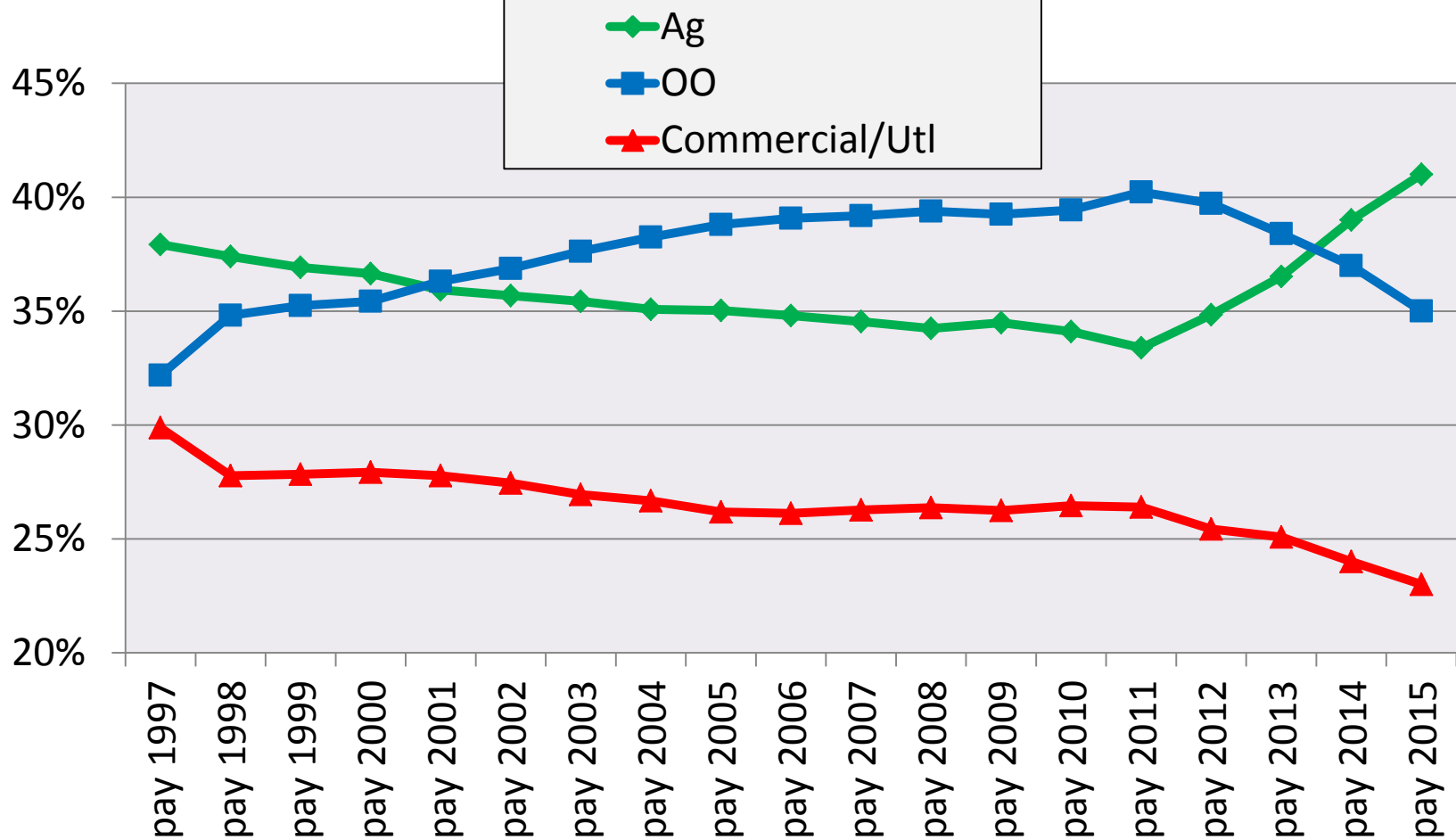
| <u>City</u> | <u>Agricultural Effective Tax Rate</u> | <u>Owner- Occupied Effective Tax Rate</u> | <u>Other Effective Tax Rate</u> | <u>City</u> | <u>Agricultural Effective Tax Rate</u> | <u>Owner- Occupied Effective Tax Rate</u> | <u>Other Effective Tax Rate</u> |
|---------------|--|---|---|-------------|--|---|---|
| Aberdeen | 1.20 | 1.66 | 2.06 | Mobridge | 1.50 | 2.33 | 2.90 |
| Belle Fourche | 1.07 | 1.76 | 2.16 | Pierre | 1.04 | 1.45 | 1.83 |
| Brandon | 1.05 | 1.50 | 1.89 | Rapid City | 1.21 | 1.44 | 1.85 |
| Brookings | 1.22 | 1.47 | 1.91 | Redfield | 1.06 | 2.70 | 3.32 |
| Canton | 0.94 | 1.82 | 2.20 | Sioux Falls | 0.96 | 1.37 | 1.81 |
| Chamberlain | 0.98 | 1.84 | 2.23 | Sisseton | 1.04 | 2.04 | 2.43 |
| Dell Rapids | 1.10 | 1.63 | 2.02 | Sturgis | 1.09 | 1.85 | 2.24 |
| Flandreau | 1.09 | 1.90 | 2.29 | Vermillion | 1.26 | 1.88 | 2.41 |
| Hot Springs | 1.26 | 1.75 | 2.14 | Watertown | 1.02 | 1.28 | 1.67 |
| Huron | 1.12 | 1.91 | 2.30 | Webster | 1.14 | 1.89 | 2.28 |
| Madison | 0.95 | 1.75 | 2.17 | Winner | 1.02 | 1.68 | 2.06 |
| Milbank | 1.15 | 1.63 | 2.01 | Yankton | 1.18 | 1.49 | 1.88 |
| Mitchell | 1.19 | 1.72 | 2.13 | Statewide | 1.01 | 1.45 | 1.84 |

Valuation by Class

(all figures equalized to 85%)

| For Taxes Payable in | Agricultural | % of Total | Owner-Occupied | % of Total | Commercial | % of Total | Utilities | % of Total | TOTAL |
|----------------------|----------------|------------|----------------|------------|----------------|------------|---------------|------------|----------------|
| 2003 | 12,277,695,126 | 35.43 | 13,038,052,643 | 37.62 | 8,212,742,597 | 23.70 | 1,126,545,169 | 3.25 | 34,655,035,535 |
| 2004 | 13,085,504,017 | 35.07 | 14,269,607,712 | 38.25 | 8,811,374,289 | 23.62 | 1,141,657,751 | 3.06 | 37,308,143,769 |
| 2005 | 14,015,749,247 | 35.03 | 15,523,846,537 | 38.79 | 9,362,992,929 | 23.40 | 1,113,225,824 | 2.78 | 40,015,814,537 |
| 2006 | 15,097,290,060 | 34.80 | 16,954,988,100 | 39.08 | 10,238,689,250 | 23.60 | 1,093,714,459 | 2.52 | 43,384,681,869 |
| 2007 | 16,427,689,981 | 34.54 | 18,633,455,339 | 39.18 | 11,336,818,639 | 23.84 | 1,158,792,774 | 2.44 | 47,556,756,733 |
| 2008 | 17,688,985,934 | 34.23 | 20,353,223,881 | 39.39 | 12,504,672,828 | 24.20 | 1,124,579,669 | 2.18 | 51,671,462,309 |
| 2009 | 19,058,117,169 | 34.49 | 21,687,103,039 | 39.25 | 13,334,072,762 | 24.13 | 1,169,829,792 | 2.12 | 55,249,122,762 |
| 2010 | 19,690,137,457 | 34.11 | 22,768,420,477 | 39.44 | 14,051,480,469 | 24.34 | 1,222,801,442 | 2.12 | 57,732,839,845 |
| 2011 | 19,691,529,066 | 33.38 | 23,726,031,354 | 40.22 | 14,345,035,001 | 24.32 | 1,222,426,811 | 2.07 | 58,985,022,232 |
| 2012 | 21,198,601,461 | 34.84 | 24,168,972,982 | 39.72 | 14,186,603,573 | 23.32 | 1,289,522,163 | 2.12 | 60,843,700,179 |
| 2013 | 23,009,157,595 | 36.52 | 24,187,671,139 | 38.39 | 14,543,781,399 | 23.09 | 1,258,762,412 | 2.00 | 62,999,372,545 |
| 2014 | 26,152,823,040 | 38.81 | 25,026,080,805 | 37.14 | 14,919,046,958 | 22.14 | 1,285,494,413 | 1.91 | 67,383,445,216 |
| 2015 | 31,471,871,046 | 41.50 | 26,568,999,684 | 35.03 | 16,418,586,431 | 21.65 | 1,376,178,334 | 1.82 | 75,835,635,495 |

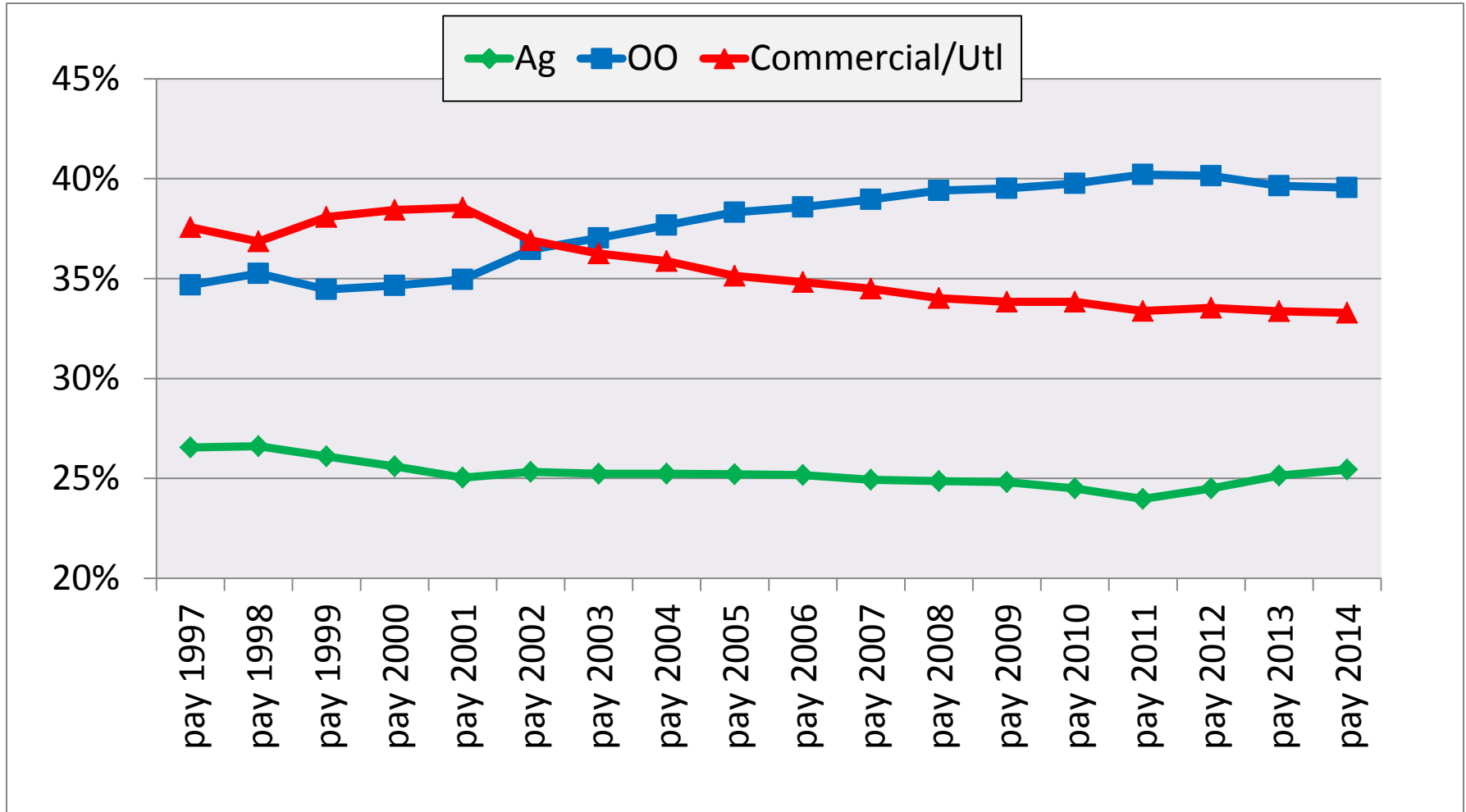
Valuation by Class as % of Total



Property Taxes: Who Pays?

| Year Taxes are Payable | Agricultural | % Of Total | Owner-occupied | % Of Total | Commercial | % Of Total | Utilities | % Of Total | Special Assessments | % Of Total | TOTAL |
|------------------------|--------------|------------|----------------|------------|-------------|------------|------------|------------|---------------------|------------|---------------|
| 2003 | 176,354,349 | 25.24 | 258,757,664 | 37.03 | 222,277,922 | 31.81 | 31,052,406 | 4.44 | 10,279,052.77 | 1.47 | 698,721,394 |
| 2004 | 183,027,601 | 25.24 | 273,180,527 | 37.67 | 229,836,765 | 31.69 | 30,282,567 | 4.18 | 8,835,377.91 | 1.22 | 725,162,838 |
| 2005 | 190,743,858 | 25.21 | 289,985,539 | 38.32 | 236,891,146 | 31.31 | 28,975,635 | 3.83 | 10,120,766.02 | 1.34 | 756,716,943 |
| 2006 | 202,173,330 | 25.17 | 309,831,254 | 38.58 | 252,523,983 | 31.44 | 27,191,751 | 3.39 | 11,422,093 | 1.42 | 803,142,410 |
| 2007 | 211,381,559 | 24.93 | 330,332,434 | 38.96 | 267,236,569 | 31.52 | 25,266,119 | 2.98 | 13,675,583 | 1.61 | 847,892,758 |
| 2008 | 219,709,028 | 24.87 | 348,147,127 | 39.41 | 277,552,244 | 31.42 | 22,957,006 | 2.60 | 15,057,152 | 1.70 | 883,422,556 |
| 2009 | 231,587,046 | 24.81 | 368,765,290 | 39.51 | 292,805,927 | 31.37 | 23,025,217 | 2.47 | 17,091,242 | 1.83 | 933,274,722 |
| 2010 | 239,627,362 | 24.50 | 388,867,662 | 39.76 | 307,499,562 | 31.44 | 23,463,130 | 2.40 | 18,467,990 | 1.89 | 977,925,706 |
| 2011 | 240,496,832 | 23.97 | 403,337,138 | 40.21 | 312,194,141 | 31.12 | 22,646,984 | 2.26 | 24,485,447 | 2.44 | 1,003,160,542 |
| 2012 | 252,715,223 | 24.50 | 414,066,249 | 40.14 | 321,656,276 | 31.18 | 24,275,738 | 2.35 | 18,819,754 | 1.83 | 1,031,533,239 |
| 2013 | 269,377,688 | 25.14 | 424,725,465 | 39.64 | 331,147,206 | 30.91 | 26,337,906 | 2.46 | 19,768,706 | 1.83 | 1,071,356,971 |
| 2014 | 286,177,332 | 25.45 | 444,727,084 | 39.55 | 346,978,590 | 30.86 | 27,320,189 | 2.43 | 19,323,088 | 1.72 | 1,124,526,283 |

Who Pays: Property Taxes Paid by Class as % of Total



Property Taxes: Where Does the Money Go?

| For Taxes Payable In | County | % Of Total | Municipalities | % Of Total | Schools | % Of Total | Townships | % Of Total | Special Assessments | % Of Total | TOTAL |
|----------------------|-------------|------------|----------------|------------|-------------|------------|------------|------------|---------------------|------------|---------------|
| Pay 2003 | 172,099,579 | 24.63 | 87,349,216 | 12.50 | 417,257,623 | 59.72 | 11,735,923 | 1.68 | 10,279,053 | 1.47 | 698,721,394 |
| Pay 2004 | 182,029,759 | 25.10 | 92,005,243 | 12.69 | 430,465,020 | 59.36 | 11,827,439 | 1.63 | 8,835,378 | 1.22 | 725,162,838 |
| Pay 2005 | 190,946,759 | 25.23 | 96,379,649 | 12.74 | 447,203,111 | 59.10 | 12,066,658 | 1.59 | 10,120,766 | 1.34 | 756,716,943 |
| Pay 2006 | 201,763,441 | 25.12 | 102,625,076 | 12.78 | 475,005,462 | 59.14 | 12,326,339 | 1.53 | 11,422,093 | 1.42 | 803,142,410 |
| Pay 2007 | 215,590,027 | 25.43 | 109,964,079 | 12.97 | 495,863,786 | 58.48 | 12,798,789 | 1.51 | 13,675,583 | 1.61 | 847,892,264 |
| Pay 2008 | 231,487,473 | 26.20 | 116,772,552 | 13.22 | 506,618,292 | 57.35 | 13,487,087 | 1.53 | 15,057,152 | 1.70 | 883,422,556 |
| Pay 2009 | 248,284,680 | 26.60 | 124,481,492 | 13.34 | 529,246,426 | 56.71 | 14,170,891 | 1.52 | 17,091,242 | 1.83 | 933,274,722 |
| Pay 2010 | 267,475,363 | 27.35 | 131,066,116 | 13.40 | 546,181,894 | 55.85 | 14,734,342 | 1.51 | 18,467,990 | 1.89 | 977,925,706 |
| Pay 2011 | 268,440,562 | 26.76 | 133,749,586 | 13.33 | 560,022,922 | 55.83 | 16,462,026 | 1.64 | 24,485,447 | 2.44 | 1,003,160,542 |
| Pay 2012 | 281,180,299 | 27.26 | 139,272,206 | 13.50 | 574,213,937 | 55.67 | 18,047,044 | 1.75 | 18,819,754 | 1.82 | 1,031,533,239 |
| Pay 2013 | 296,987,309 | 27.72 | 145,762,092 | 13.61 | 589,839,803 | 55.06 | 18,999,061 | 1.77 | 19,768,706 | 1.85 | 1,071,356,971 |
| Pay 2014 | 301,699,432 | 26.83 | 149,893,710 | 13.33 | 635,031,575 | 56.47 | 18,578,477 | 1.65 | 19,323,088 | 1.72 | 1,124,526,282 |

SB 1

Section 20. That § 10-12-13 be amended to read as follows:

10-12-13. The board of county commissioners may levy an annual tax as a reserve fund to be accumulated and used for the purpose of maintaining, repairing, constructing, and reconstructing roads and bridges as follows:

- (1) A levy not to exceed **one dollar and twenty cents** per thousand dollars of taxable valuation, if the total taxable valuation of the county is **one billion dollars or less**;
- (2) A levy not to exceed **ninety cents** per thousand dollars of taxable valuation, if the total taxable valuation of the county is **more than one billion dollars but less than two billion dollars**; and
- (3) A levy not to exceed **sixty cents** per thousand dollars of taxable valuation, if the total taxable valuation of the county is **two billion dollars or more**.

Moneys in the fund may be expended in the laying out, marking, maintaining, constructing, and reconstructing roads and maintaining, constructing, and reconstructing bridges, under the jurisdiction of the board of county commissioners. The tax levy shall be in addition to all other levies authorized to be made by the board of county commissioners for road and bridge purposes provided for in § 10-12-21. The proceeds of such levy shall be placed in a special fund to be known as the county highway and bridge reserve fund. **Any increased tax levy imposed pursuant to this section is exempt from the provisions of chapter 10-13, if the county establishes the amount of revenue payable from taxes on real property pursuant to section 21 of this Act. However, each year thereafter, the county may increase the amount of revenue payable from property taxes by applying the growth and the index factor pursuant to the provisions of § 10-13-35.**

Section 21. The governing body of the county may, by resolution, impose the increased tax levy provided in § 10-12-13 with an affirmative **two-thirds vote of the governing body on or before July fifteenth**. The action of the governing body to authorize an increased tax levy shall be published within ten days of the action and shall be published at least twice in each legal newspaper designated by the county. The action to authorize an increased tax levy is subject to the referendum process in accordance with chapter 7-18A.

Opt Outs

- If a taxing district cannot operate on the revenues generated by the maximum allowed by state law, the district may impose an excess tax levy, or “opt out.” SDCL 10-12-43.
- School districts are only allowed to opt out for the general fund levy.
- An opt out requires a two-thirds vote of the governing body on or before July 15 prior to the year the taxes are payable.
- Opt outs may be referred to a vote upon a petition signed by at least five percent of the registered voters in the taxing district and filed within twenty days of publication of the opt out resolution. The Election must be held on or before October 1.

Opt Outs

- Any opt out passed on July 1, 2002 or after must specify in the resolution the year or number of years the excess tax levy will be imposed.
- For taxes payable in 2015, there were 16 active county opt outs statewide with the ability to generate approximately \$9 million of additional tax revenue.

Where Does South Dakota Rank?*

- Sioux Falls (taxes payable 2014)
 - Homestead property taxes on \$150,000 house
 - 22nd at an average of \$2,036
 - Homestead property taxes on \$300,000 house
 - 24th at an average of \$4,072
 - Commercial property taxes on \$1 M property
 - 36th at an average of \$18,208
 - Apartment property taxes on \$600,000 property
 - 25th at an average of \$10,925

*Source: *50 State Property Tax Comparison Study (2015)*, Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.

Where Does South Dakota Rank?*

- Madison (taxes payable 2014)
 - Homestead property taxes on \$70,000 house
 - 18th at an average of \$1,093
 - Homestead property taxes on \$150,000 house
 - 20th at an average of \$2,343
 - Commercial property taxes on \$1 M property
 - 28th at an average of \$19,074
 - Apartment property taxes on \$600,000 property
 - 21st at an average of \$11,445

*Source: *50 State Property Tax Comparison Study (2015)*, Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.



Other Sources of Tax Revenue Allocated for County Purposes

Presented by Michael Houdyshell
Director, Property and Special Taxes
SD Dept. of Revenue

County Share of Other State Taxes

- **Bank Franchise Tax**
 - Credit card banks: 5% distributed to county where bank is located
 - All other banks/financial institutions: 73.33% distributed to county where bank is located
- **Energy Minerals Severance Tax**
 - 50% distributed to county where energy mineral was severed
- **Precious Metals Severance Tax**
 - 20% to the county where the precious metal was severed (subject to a \$1 million cap per mine)
- **Commercial Wind Farm Tax (2 parts)**
 - Nameplate capacity tax: 100% reverted to county where towers located; further distributed to local governments, with county retaining 35%
 - Generation tax: 20% reverted to county where towers located; further distributed to local governments, with county retaining 35%

County Share of Other State Taxes

- Telecommunications Gross Receipts Tax
 - 40% deposited in the telecommunications gross receipts tax fund; dispersed to the counties on a per capita basis
- County-issued liquor licenses and malt beverage licenses
 - 100% of liquor license fee, 50% of malt beverage license fee

Interactions with County Officials

- The Property and Special Taxes Division has frequent contact with county government.
 - Property Taxes
 - Reviews all real property transfers to gauge performance of Director of Equalization Office.
 - Certifies the aggregate assessed value of each county on an annual basis.
 - Reviews and certifies all property tax levies to ensure compliance with state law (county auditors).
 - Provides publications, forms, and guidance on property tax relief programs (county treasurers).
 - Special Taxes
 - Assists local governments with alcoholic beverage licensing.
 - Reverts tax revenues to counties in accordance with state law.

More Information?

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Website:

http://dor.sd.gov/Taxes/Property_Taxes/

http://dor.sd.gov/Taxes/Special_Taxes/